partnerships

# SERVICE PLAN

## 2003/04 – 2005/06

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## Message from the President/CEO

I am pleased to present the service plan for Partnerships British Columbia for the period April 1, 2003 to March 31, 2006. As we begin our first full year of operation, I look forward to building on the progress made to date.

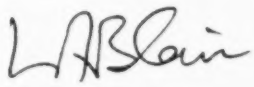
Since its inception in May 2002, Partnerships British Columbia has become an integral part of the government's plan to provide public infrastructure and services in an effective, affordable way. We are working with the private sector and various government agencies to explore opportunities for public-private partnerships and related activities in sectors such as health care, education, transportation and resource development.

In the coming year, as we progress with our mandate, we will begin to position the company to become commercially viable by 2005/06. We will establish a permanent board of directors and build on our existing base of public sector expertise by recruiting skilled, experienced individuals from the private sector. We will also establish meaningful ways of measuring progress to help ensure that we provide better, and not just different, solutions to infrastructure challenges.

This is an exciting time for Partnerships British Columbia. In the next three years, we will move forward with new ideas for infrastructure projects that combine the best of the public and private sectors in the delivery of public services. The objective is to protect the public interest while maximizing the value of taxpayer dollars. We will seek partnerships that harness private-sector innovation, encourage competition and optimise the transfer of risk to the private sector. We will establish strategic relationships with other jurisdictions and learn from their experience to support the development of public-private partnerships expertise here in British Columbia.

As we gain experience, we will also re-examine and refine the goals and performance measures in this rolling service plan – and demonstrate our progress and success to the public. Ultimately, we will help to achieve the government's Strategic Plan to restore sound fiscal management and revitalize the economy.

Sincerely,



Larry Blain

President and CEO

January 31, 2003

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# Introduction

Partnerships British Columbia (PBC) was created in May, 2002, as part of the government's strategic plan to deliver public services effectively and affordably. The company plays a key role in delivering on the government's commitments to sound fiscal management, public accountability and value for taxpayers' dollars – at a time when population growth and demographic change are fuelling demand for more and better public services.

To help meet that demand and the related pressures on the province's infrastructure – and uphold the government's commitment to sound fiscal management – all public agencies planning capital projects must now explore a full range of options for meeting their service delivery goals. That means considering, along with traditional methods, innovative approaches such as public-private partnerships (P3s) and alternative service delivery (ASD) – delivery methods which are relatively new to British Columbia.

That is why PBC was created: to provide ministries and public agencies with expert advice and support to explore and, when supported by a sound business case, to implement P3s, and other non-traditional approaches to providing public infrastructure and services. The company's primary focus is on P3s which are a cornerstone of the government's modernization program.

Partnerships between the public and private sectors have proven that they can achieve a range of benefits, from better quality services and infrastructure, to increased private sector investment in the economy. PBC will draw on the experiences and lessons learned in other jurisdictions, to build expertise and position the province as a leader in the P3 field.

In the coming years, the company will be challenged to support the development of P3 knowledge and experience throughout the public sector, and to create a climate that stimulates private sector expertise and investment.

Another key challenge in this first year of operations will be to finalize performance measures and targets that focus the organization on becoming commercially viable by 2005/06. The performance measures in this service plan will be refined and updated as the company gains experience and, like all government service plans, this document will be updated annually. A detailed accounting of activities and accomplishments will be included in an annual report, published at the end of each fiscal year.

## *Corporate Overview*

PBC is a company owned by the Province and governed by a board of directors reporting to its shareholder, the Minister of Finance. The company was established under the *Company Act* in May 2002 to promote, support and, in some cases, manage

P3s and related activities that maximize the value of public capital assets such as hospitals, educational facilities, and highways

The company's core business is to:

Provide specialized services, ranging from advice to project leadership/management, to government and its agencies in P3s and related activities (e.g. alternative service delivery and strategic asset disposition);

Foster a positive business and policy environment for successful P3s and related activities by continually expanding British Columbia's base of knowledge, understanding and expertise in these emerging areas; and

Manage an efficient and leading edge organization that meets or exceeds performance expectations.

The company's clients are public sector agencies, including ministries, Crown corporations, and local authorities such as districts and boards. To serve these clients effectively, PBC is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

The company's organization, staffing and governance reflect and support this meshing of public and private sector interests. PBC currently has a small core staff of 21 with offices based in both Vancouver and Victoria to effectively meet the needs of partners in both sectors. Human resource planning is designed to ensure the best possible mix of skill sets from the public and private sectors; and the company is establishing, in 2003/04, a permanent board of directors with expertise, leadership and vision from both sectors. Core business is carried out by in-house staff, drawing extensively on external advisers as needed to serve clients effectively through the establishment of project teams.

The company's role is expected to evolve in the coming years as British Columbia's P3 capacity expands, and as experience demonstrates the value of new and innovative service delivery options. In 2003/04, PBC's focus is on major infrastructure-related projects in a variety of sectors such as health care and transportation. It is also involved in other priority projects including selected strategic asset dispositions.

# Strategic Context

In carrying out its mandate, PBC is guided by the following vision, mission and values:

## *Vision*

A commercially viable company recognized worldwide for innovation and leadership in facilitating P3s and other new approaches that provide value-for-money solutions for public agency clients.

## *Mission*

To support public agencies to achieve optimal service delivery and maximum value for their infrastructure investments through P3s and other innovative, cost-effective solutions.

## *Values and Leadership Philosophy*

| **PBC's Values are:** | **Its Leadership Philosophy is to:** |
|---|---|
| Innovation | x explore and encourage the development of new ideas, partnerships and infrastructure solutions<br>x embrace change<br>x constantly seek new opportunities<br>x identify and overcome barriers to progress |
| Protecting the Public Interest | x ensure that public interest issues such as health and safety, environmental protection, access, privacy, equity, transparency and security are assessed and protected in developing solutions to infrastructure challenges<br>x reinforce through policy, guidelines and communication with public agencies that the Province's primary mandate is to serve the public effectively |

| | |
|---|---|
| Strong Fiscal and Risk Management | x facilitate solutions to infrastructure challenges that result in value for money<br>x provide public agencies with tools and support to identify, evaluate, allocate and manage risk effectively |
| Accountability | x measure and report on performance at all levels<br>x recognize achievement and benefit from lessons learned |
| Respect and Integrity | x focus on clients<br>x provide leadership and encourage teamwork<br>x value diversity and differences of opinion<br>x protect confidentiality of commercial information |

## Planning Context

PBC is a new organization that represents an innovative approach to developing the infrastructure needed to deliver effective, affordable public services.

In the coming years, a range of factors will influence the company, presenting risks and challenges as well as opportunities. These include:

Service Demand, Fiscal and Budget Challenges

British Columbia's growing population, shifting demographics, and aging public infrastructure are fuelling demand for more public services and more public investments in service-related infrastructure. Government has made a commitment to meet these needs effectively and affordably, while achieving its fiscal goals.

PBC was established to assist public agencies in meeting this challenge. By supporting the development of P3s and other new approaches, it can help agencies cost-effectively meet or exceed their service goals, while fostering a positive climate for increased private investment.

Alongside these opportunities, PBC will face the critical challenge of balancing demand for its services with the practical limitations of its capacity, to ensure successful performance at both the project and organizational levels. To mitigate the risks associated with this challenge, PBC will:

- Develop and apply robust screening criteria to determine the viability of potential projects and their consistency with PBC strategic priorities and operational capacity (e.g. technical, financial, policy and public interest criteria);

- Implement business development strategies and establish strong communications and business relationships to generate a critical mass of project opportunities;
- Develop project inventories that help match operational capacity with project priorities and demands; and
- Focus upon early project successes to encourage identification of new project opportunities.

Government Strategic and Service Plan Priorities

The government's strategic plan for British Columbia's future emphasizes the key role of private sector investment and specifically cites the need to develop P3s and related solutions to infrastructure challenges. At the same time, a number of ministries and agencies are being restructured to reflect the outcomes of the Core Services Review process, and identifying new directions in their service plans.

As the government moves ahead with these strategic priorities, PBC will be challenged to support the development of new and more cost-effective approaches to service delivery. Opportunities will emerge for P3 arrangements and related activities, such as disposing of non-core assets.

Risk Allocation and Management

Every project carries a certain amount of risk and, over time, experience has demonstrated that certain risks can be more effectively managed by either the public or private sector. Herein lies one of the strengths of P3s: they provide opportunities for achieving value for money by allocating risks to the parties best able to manage them effectively, while protecting the public interest.

Traditionally in British Columbia, capital assets such as schools and roads were financed, designed, constructed and maintained by the Province. Taxpayers bore the full brunt of the risks which often materialized in the course of managing those investments – and the Province missed potential opportunities to benefit from private sector experience, ingenuity and innovation.

As the Province gains experience with P3s, both the public and private sectors will increase their capacity to address service delivery challenges, and to identify optimum approaches to risk sharing. This will help to improve value for money and allow public agencies to focus more time and resources on their core businesses.

At the same time, the relative newness of the P3 approach will present its own risks. Recognizing this, PBC is developing strategies and expertise to ensure that risks are identified and managed effectively throughout projects' life cycles, from pre-planning through financial close (i.e. the formal completion of partnership agreements), implementation, operation, and renewal or disposal.

These strategies will include specific steps to:

- Ensure public interest policy parameters are established early in project planning and appropriate screening criteria are applied that take into consideration key public interest issues;
- Apply appropriate evaluation techniques and sound business case processes to support informed decision-making;
- Ensure appropriate contract structuring, documentation and management to achieve value for money and protect the public interest;
- Promote awareness and understanding of P3s; and
- Identify and proactively manage project related barriers.

As the company gains more business experience, it will provide more substantive information in its service plan regarding risks and mitigation strategies.

Legislative and Policy Environment

The Province's legislative and policy environment continues to evolve in ways that enable and encourage the consideration of P3s. As a matter of policy, public agencies are expected to explore a full range of options to meet their service delivery goals, and to choose those which best serve the needs and interests of British Columbians.

The Capital Asset Management Framework (introduced in 2002) provides specific guidance in this area. Legislation such as the *Transportation Investment Act*, *Public Education Flexibility and Choice Act* and the *Health and Social Services Delivery Improvement Act* provide the flexibility the public sector needs to support P3 business models where they provide value for money and protect the public interest. These trends are likely to continue as the government moves forward to implement its strategic plan and priorities.

P3 Experience and Capacity

As a new organization, PBC has important opportunities to learn from jurisdictions where the P3 approach is used more extensively. It can apply proven models, avoid common pitfalls and create a unique, made-in-BC approach that gets the right results – results that motivate both the public and private sectors to build their capacity and explore additional P3 options.

At the same time, the newness of the P3 approach in British Columbia means that experience and capacity are limited in both the public and private sectors. PBC will be challenged to support the development of P3 expertise throughout the public sector, and to create a climate in which private sector expertise can be stimulated. The company will also be challenged to clearly demonstrate the costs, benefits and risks of P3 arrangements to ensure informed decision-making.

Strategies to mitigate the risks associated with these challenges include:

- Initiatives such as conference presentations and strategic educational information to communicate the province's P3 policy objectives;
- Encouraging business-partnering opportunities through education and awareness;
- Conducting market testing/evaluations and sounding in advance of project implementation, and as a key step in business case analysis;
- Ensuring that there is a clear and public accounting of costs and benefits of P3 projects (e.g. measuring and communicating the benefits of P3 projects); and,
- Ensuring transparent evaluation and structuring of partnerships.

# Goals, Objectives, Strategies and Performance Measures

## *Goals*

PBC has three goals: a primary goal, which reflects the organization's role in meeting the Province's needs for affordable infrastructure, high-quality services and increased levels of private-sector investment. Two supporting corporate goals, provide a foundation for carrying out the primary goal effectively.

The primary goal is to:

1. Develop P3s and innovative service approaches that result in value for money, while protecting the public interest.

*To accomplish this goal, PBC's supporting corporate goals are to:*

2. Become a commercially viable organization; and
3. Increase provincial P3 capacity.

The following section describes each goal in further detail, lists the objectives in support of those goals, and provides examples of the strategies the company will undertake to achieve both its goals and objectives.

Performance measures and targets for the goals and strategies are listed in the Table on page 12. They have been carefully selected to ensure a balanced approach to

measuring progress, and to encourage the development of an efficient organization that facilitates projects based on their potential to support effective, efficient public service delivery.

The measures and targets in this plan will be refined, and additional measures and targets will be established, as the company gains experience, implements projects and assesses their benefits for the people of British Columbia.

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Goal # 1 Develop P3s and innovative service approaches that result in value for money while protecting the public interest.

*PBC is committed to supporting the "right" projects – projects that help agencies improve service delivery, reduce costs, transfer risk and/or generate revenue to offset costs, while always protecting the public interest.*

Objectives:

1. To identify and assess opportunities for P3s and related projects.
2. To work with public agencies to deliver P3s and related projects.
3. To ensure sound business case analysis and management processes throughout project lifecycles.
4. To assist public agencies in assessing and realizing value for money and reducing transaction costs.

Strategies:

- Build strong working relationships with public and private agencies.
- Provide technical advice or leadership on assessing P3 and related activities such as strategic asset disposition (e.g. options and business case analysis, risk analyses, public interest assessments and deal structuring).
- Manage P3 and other related procurement processes (e.g. prepare solicitation documents such as Expressions of Interest and Requests for Proposals, negotiate contract terms with private sector partners and service providers).
- Develop P3 and related technical tools (e.g. project evaluation criteria, Public Sector Comparator model) to support assessments of value for money.
- Help to streamline processes or remove barriers to undertaking P3s.

## Goal # 2 Become a commercially viable organization

*PBC will have the ability to be financially self-sustaining by 2005/06, and will operate in an effective, responsible and accountable manner.*

Objectives:

1. To maximize revenues through the optimal use of resources.
2. To ensure accountability to the shareholder.
3. To equip PBC with the mix of staff required to achieve its mission and vision.
4. To foster a working environment that encourages flexibility, creativity and adaptability.

Strategies:

- Develop and implement a medium-term Business Plan that specifies priority P3 projects and business development activities.
- Develop and implement an Operational Framework that includes policy and procedure frameworks for governance, financial and corporate operations.
- Complete and implement a performance-based human resource strategy and compensation framework; this includes assembling the diverse mix of private and public sector skills and expertise required, and complementing these with outside expertise ("stable" of qualified industry specific resources).
- Develop a project management system to monitor and evaluate corporate, personal, and project performance.

## Goal # 3 Increase Provincial P3 Capacity

*This goal recognizes PBC's role as the Province's lead facilitator and educator in the emerging area of P3s.*

Objectives:

1. To build a positive climate for the development of successful P3s and related activities.
2. To provide practical expertise and experience in provincial infrastructure procurement and P3 implementation.

3. To stimulate the development of P3 knowledge and experience throughout the public and private sectors, positioning British Columbia as a global leader in innovative service delivery.

Strategies:

- Develop strategic alliances with other P3 organizations and experts to expand British Columbia's knowledge and expertise.
- Provide a consistent point of access to government for potential private sector partners.
- Conduct forums and educational seminars to raise levels of knowledge and awareness on the benefits of P3s and related opportunities in both the public and private sectors.
- Develop a central repository of P3 and related knowledge and expertise.
- Establish a P3 information Web site including an online business directory.

## Goal 1: Develop P3s and innovative service approaches that result in value for money while protecting the public interest

| Strategies | Performance Measure | Base 2003/04 | Target 2004/05 | Target 2005/06 |
|---|---|---|---|---|
| × Build strong working relationships with public and private agencies.<br>× Provide technical advice or leadership on assessing P3 and related activities such as strategic asset disposition (e.g. options and business case analysis, risk analyses, public interest assessments and deal structuring).<br>× Manage P3 and other related procurement processes (e.g. prepare solicitation documents such as Expressions of Interest and Requests for Proposals, negotiate contract terms with private sector partners and service providers).<br>× Develop P3 and related technical tools (e.g. project evaluation criteria, Public Sector Comparator model) to support assessments of value for money.<br>× Help to streamline processes or remove barriers to undertaking P3s. | × Total Net Present Value of Treasury Board approved projects reaching financial close.<br>× Net benefits (as a percentage) derived from P3 and other related activities (qualitative and quantitative benefits over a baseline measuring factors such as service improvements, transactions costs, risk transfer, project schedules).<br>× Amount of private sector investment in new infrastructure.<br>× Business tools available to PBC and its clients. | *Evaluate and establish Benchmarks* | *TBD* | *TBD* |

## Goal 2: Become a commercially viable organization

| Strategies | Performance Measure | Base 2003/04 | Target 2004/05 | Target 2005/06 |
|---|---|---|---|---|
| × Develop and implement a medium-term Business Plan that specifies priority P3 projects and business development activities.<br>× Develop and implement an Operational Framework that includes policy and procedure frameworks for governance, financial and corporate operations.<br>× Complete and implement a performance-based human resource strategy and compensation framework; this includes assembling the diverse mix of private and public sector skills and expertise required, and complementing these with outside expertise ("stable" of qualified industry specific resources).<br>× Develop a project management system to monitor and evaluate corporate, personal, and project performance. | × Commercial Viability (revenues from fees for service are sufficient to cover operating expenditures).<br>× Completion of Business Plan & Operational Framework.<br>× Human resource strategy implemented.<br>× Level of achievement of personal professional development and performance goals.<br>× Project Management system operational. | *Business & Operational Framework completed.*<br>*HR Strategy completed and implemented.*<br>*Personal plans developed & implemented.*<br>*Project system developed and implemented.* | *Business & Operational Framework fully implemented.*<br>*TBD* | *Commercially Viable* |

## Goal 3: Increase Provincial P3 Capacity

| Strategies | Performance Measure | Base 2003/04 | Target 2004/05 | Target 2005/06 |
|---|---|---|---|---|
| × Develop strategic alliances with other P3 organizations and experts to expand British Columbia's knowledge and expertise.<br>× Provide a consistent point of access to government for potential private sector partners.<br>× Conduct forums and educational seminars to raise levels of knowledge and awareness on the benefits of P3s and related opportunities in both the public and private sectors.<br>× Develop a central repository of P3 and related knowledge and expertise.<br>× Establish a P3 information Web site including an online business directory. | × Establish PBC website, track website visits and measure user satisfaction.<br><br>Additional measures & targets under development. | *Site developed* | *TBD* | *TBD* |

# Linkages to Government Strategic Priorities

PBC's service plan strategies are consistent with and support the government's strategic priorities. PBC is an integral part of the government's plan to provide public infrastructure and services in an effective, affordable way; to help restore sound fiscal management; and to revitalize the British Columbia economy.

The government's strategic plan specifically cites the need to develop P3s and related solutions to infrastructure challenges. By facilitating these solutions, PBC has a fundamental role to play in meeting key strategic priorities, including:

- Ensuring responsible, accountable management of public resources and tax dollars;
- Creating a positive climate for private sector investment to help revitalize the provincial economy;
- Encouraging innovation and an entrepreneurial attitude in the professional public service;
- Creating a sustainable, affordable public health care system, and
- Involving the private sector in financing highway projects so that new infrastructure can be delivered without the government having to bear the full cost.

PBC will also play an important role by supporting public agencies in meeting their own service plan goals.

# Human Resource Strategy

In the coming year, PBC will develop a Human Resource Strategy, focused on achieving an optimal mix of public and private sector skill sets. The goal is to create an environment with strong "cross-pollination" of skills, incubating expertise that can strengthen P3 capacity in both sectors.

The company will remain lean and efficient and capitalize on, rather than duplicate, private sector expertise. In-house staff resources will be complemented by an established stable of pre-qualified consulting resources including negotiators, transaction advisers, legal firms, financial advisers and others. P3 experts drawn from the private sector will work together with PBC staff with public sector experience that understand government infrastructure, service requirements, policies, processes and stakeholders.

# Resource Summary

## SUMMARY FINANCIAL OUTLOOK
## Partnerships British Columbia Inc.
**Budget/Forecast (000's)**

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| **Fee for Service** | $500 | $7,900 | $4,700 | $4,500 |
| **Retainer for Services** [1, 2] | $3,350 | $2,100 | $1,800 | $1,800 |
| **Other Revenue** | $155 | $128 | $188 | $189 |
| **Total Revenue** | **$4,005** | **$10,128** | **$6,688** | **$6,489** |
| **EXPENSES** | | | | |
| **Compensation and Benefits** | $2,485 | $3,820 | $4,006 | $4,202 |
| **Professional Services** | $27 | $100 | $100 | $100 |
| **Information Systems** | $82 | $69 | $69 | $69 |
| **Administration** | $194 | $310 | $310 | $310 |
| **Travel** | $90 | $100 | $100 | $100 |
| **Building Occupancy** | $198 | $335 | $335 | $335 |
| **Communications / Marketing** | $50 | $100 | $100 | $100 |
| **Amortization** | $73 | $103 | $152 | $188 |
| **Extraordinary Items** (start up costs) | $397 | $50 | | |
| **Total Expenses** | **$3,596** | **$4,987** | **$5,172** | **$5,404** |
| **Net Income** | **$409** | **$5,141** | **$1,516** | **$1,085** |

**Note:** Recoveries and expenditures on behalf of 3rd parties are not included as it is anticipated that they will offset one another.

### Key Forecast Assumptions

In preparing its financial statements, PBC has based its calculations on the following assumptions:

- Revenue and expenditures, at this point, are estimates based on a forecast of project activity using the best information available to PBC.
- Project expenditures will fluctuate significantly from year to year.
- The majority of the expenditures will be reimbursable from third parties during the fiscal year they are incurred and not materially affect the bottom line.

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[1] Services provided to government not recoverable from project expenses.

[2] Should the amount of the retainer fluctuate in future years then expenditures relating to support services provided to the client will offset any reduction.

- There will be no significant increase in core staffing numbers, as PBC will use project specific resources when required.
- Operating expenses are expected to increase due to normal business operations and to fully operationalize PBC.
- Retainer from the province will continue for the term of the Public-Private Partnership Agreement with the Province.
- Projects will be financed from a variety of sources: cash holdings, debt and the budgets and appropriations of ministries and agencies, which include a P3 project appropriation.

**Risks and Sensitivities**

Risks, in general, have been discussed within the Planning Context of this document; however, risks and sensitivities pertaining specifically to PBC's financial outlook are as follows:

- PBC is not forecasting large interest income; as such the fluctuation of interest rates will not significantly impact earnings. However, it may affect the ability of third parties to cover costs if they are primarily using debt financing.
- If project expenditures are not tracked properly they may not be recoverable to the organization. A project management system has been developed that will mitigate this risk.